

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 IO-11 L-03 H-02 PA-02 PRS-01 /121 W

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R 091731Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7057

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/W

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 8)

1. FOREIGN EXCHANGE MARKET: ON FRIDAY, MARCH 5 THE DOLLAR STRENGTHENED, OPENING AT DM 2.5685 AND RISING TO DM 2.5820 AT THE FIXING. THE STRENGTHENING MAY HAVE BEEN AFFECTED BY THE WIDENING OF THE INTEREST DIFFERENTIAL BETWEEN DM AND DOLLAR INVESTMENTS. THE ONE-MONTH SPREAD (EURO-DOLLAR OVER EURO-DEUTSCHEMARK) INCREASED FROM 1.75 PERCENT TO 2.00 PERCENT WHILE THE THREE-MONTH SPREAD REMAINED UNCHANGED AT 2.06 PERCENT. IN THE AFTERNOON OF MARCH 5 THE DOLLAR CAME UNDER

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PRESSURE DECLINING TO DM 2.5685 AT THE CLOSING. THE

LATTER APPEARS, ACCORDING TO THE PRESS, TO BE DUE TO THE SUBSTANTIAL WEAKENING OF THE POUND WHICH ALSO AFFECTED THE FRENCH FRANC AND THE DOLLAR. ON MONDAY, MARCH 8 THE WEAKENING OF POUND AND FRENCH FRANC CONTINUED WITH THE FRANC DECLINING TO ITS LOWER DEUTSCHEMARK INTERVENTION POINT OF DM 56.680. THE BANK OF FRANCE REPORTEDLY INTERVENED HEAVILY BY SELLING BOTH DOLLARS AND DEUTSCHEMARKS WHILE THE BUNDESBANK REFRAINED FROM PURCHASING FRENCH FRANCS OR DOLLARS AT THE OFFICIAL FIXING. REPORTEDLY, HOWEVER, IT SUPPORTED THE FRENCH FRANC OUTSIDE THE FIXING BY BUYING FRENCH FRANCS AND DOLLARS. DOLLAR AMOUNTS SOLD BY THE FRENCH AND TAKEN UP BY THE BUNDESBANK WERE NOT KNOWN, BUT THE FRENCH MAY AGAIN HAVE SOLD MORE DOLLARS THAN WERE ACQUIRED BY THE BUNDESBANK. DUE TO THIS FACTOR AND SOME NEW SPECULATION ON A DM REVALUATION, THE DOLLAR, IN HECTIC TRADING WEAKENED FURTHER ON MONDAY WHEN IT OPENED AT DM 2.5660, DECLINED TO A LOW OF DM 2.5575 AND CLOSED AT DM 2.5600; THE FIXING WAS AT DM 2.5633. ON TUESDAY, MARCH 9 THE DOLLAR OPENED HIGHER AT DM 2.5710 AND WAS FIXED AT DM 2.5713. THE STRENGTHENING WAS PROBABLY DUE TO THE SLIGHT RECOVERY OF THE POUND AND FRENCH FRANC AGAINST THE DEUTSCHEMARK. DURING THE REPORTING WEEK SPOT (FRANKFURT FIXING) AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT.P.A.)			
SPOT DOLLARS		ONE-MONTH	THREE-MONTH
MARCH 1	DM 2.5670	-2.0	-2.1
2	2.5755	-1.7	-2.3
3	2.5690	-1.5	-2.1
4	2.5723	-1.7	-2.2
5	2.5820	-2.0	-2.1
8	2.5633	-1.7	-2.1
9	2.5713	N.A.	N.A.

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK STRENGTHENED AGAINST SOME CURRENCIES, REMAINING AT THE TOP OF THE UNCLASSIFIED

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SNAKE. THE DANISH CROWN ALSO DECLINED TO ITS LOWER INTERVENTION POINT AND THE BUNDESBANK PURCHASED DKR 5.3 MILLION AT THE FIXING. IN THE COURSE OF A PRESS CONFERENCE ON MARCH 8 GOVERNMENT SPOKESMAN GRUENEWALD STATED THAT, "THE FEDERAL GOVERNMENT CURRENTLY THINKS VERY LITTLE OF A DM REVALUATION BECAUSE IT WOULD NOT BE IN LINE WITH THE ECONOMIC POLICY OBJECTIVE OF STIMULATING ECONOMIC ACTIVITY".

2. EEC CREDIT TO ITALY AND IRELAND: THE GERMAN PRESS HAS NOW REPORTED MORE DETAILS ON THE PLANNED EC CREDIT TO ITALY AND IRELAND. ACCORDING TO PRESS REPORTS, THE TOTAL AMOUNT OF THE LOAN WILL BE \$1.3 BILLION; \$L BILLION FOR ITALY AND \$0.3 BILLION TO IRELAND. THE FAZ REPORTED THAT THE BANKING CONSORTIUM ARRANGING THE LOAN WILL BE LED BY THE DEUTSCHE BANK. THE RAISING OF THE FUNDS WILL BE MADE IN FOUR TRANCHES. A FIRST TRANCHE

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R 091731Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7058

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

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OF \$300 MILLION WILL BE RAISED AT A VARIABLE INTEREST  
RAT RATE WHICH IS EXPECTED TO BE 1 PERCENT ABOVE THE

SIX-MONTH LONDON INTERBANK RATE. THE MATURITY OF THIS TRANCHE WILL BE 5 YEARS. ALL OTHER TRANCHES OF THE LOAN WILL BE RAISED AT FIXED INTEREST RATES, ACCORDING TO THE FAZ, DUE TO STRONG INSISTENCE OF THE FRG THAT THE FINANCIAL OBLIGATION OF THE EEC COUNTRIES RESULTING FROM THE GRANTING OF THE LOAN ARE ASCERTAINED FROM THE BEGINNING. THE SECOND TRANCHE WILL AMOUNT TO \$300 MILLION AND HAVE AN EXPECTED COUPON OF 8 1/4 PERCENT AND A MATURITY OF 6 YEARS. THE THIRD TRANCHE WILL BE RAISED IN DEUTSCHEMARKS EQUIVALENT TO ABOUT \$250 MILLION. THE EXACT SIZE OF THIS TRANCHE , PROBABLY UNCLASSIFIED

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DM 500-600 MILLION, AND FINAL TERMS HAVE NOT YET BEEN DECIDED. THE REMAINDER, ABOUT \$400-500 MILLION DEPENDING ON THE FINAL SIZE OF THE DEUTSCHEMARK TRANCHE, WILL BE RAISED BY A PRIVATE DOLLAR PLACEMENT AT A MATURITY OF NOT MORE THAN 4 YEARS. THE FINAL DECISION FOR AMOUNTS OF THE TRANCHES AND CONDITIONS WILL BE MADE AT THE MARCH 15 MEETING OF THE EEC COUNCIL OF MINISTERS.

3. THE DETAILS ON THE EC LOAN REPORTED BY THE FAZ ARE SIMILAR TO THOSE CONTAINED IN A MARCH 6 REPORT OF THE INTERNATIONAL HERALD TRIBUNE, PARIS EDITION. THE HANDELSBLATT WAS MUCH MORE UNCERTAIN ABOUT THE DETAILS OF THE LOAN. IT STATED THAT ANOTHER BANKING GROUP LED BY MORGAN GUARANTY AND CREDIT LYONNAIS IS ALSO COMPETING FOR A PARTIAL FINANCING OF THE LOAN, PROBABLY IN AN AMOUNT OF ABOUT HALF OF THE LOAN, AND THAT OTHER BANKING GROUPS ARE PREPARING PROPOSALS FOR THE FINANCING OF THE FULL LOAN.

4. MONEY MARKET: CONDITIONS ON THE GERMAN MONEY MARKET REMAINED VIRTUALLY UNCHANGED WITH CALL MONEY REMAINING AT OR SLIGHTLY ABOVE THE 3 1/2 PERCENT LEVEL OF THE REDISCOUNT RATE. THIS OCCURRED DESPITE LIQUIDITY PREPARATIONS OF BANKS FOR THE MAJOR MID-MARCH TAX DATE. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

MARCH 1	3.4-3.7	3.55	3.65
2	3.4-3.6	3.55	3.65
3	3.4-3.6	3.60	3.75
4	3.4-3.6	3.60	3.75
5	3.4-3.7	3.65	3.75
8	3.4-3.7	3.65	3.75

5. BUNDESBANK FOREIGN POSITION: IN THE LAST WEEK OF  
FEBRUARY (FEBRUARY 24-29) THE BUNDESBANK'S NET FOREIGN  
POSITION INCREASED BY DM 0.3 BILLION TO DM 86.5  
BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED  
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BY DM 18 MILLION, HOLDINGS OF LIQUID FOREIGN EXCHANGE  
BY DM 29 MILLION AND GROSS LIABILITIES BY ABOUT DM 350  
MILLION.

6. BANK LIQUIDITY: IN THE LAST WEEK OF FEBRUARY BANK  
LIQUIDITY REMAINED UNCHANGED. LIQUIDITY WAS INCREASED  
BY A RELATIVELY LARGE DM 6.1 BILLION DECLINE IN

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R 091731Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7059

INFO AMEMBASSY BERN

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OFFICIAL NET ASSETS HELD AT THE BUNDESBANK AT THE END OF THE MONTH AND THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION. OTHER FACTORS (NET) INCREASED LIQUIDITY BY DM 2.2 BILLION. LIQUIDITY WAS REDUCED BY THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 3.8 BILLION) AND A DM 4.8 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK.

7. NEW LOANS ON THE BOND MARKET: ON MARCH 10 THE GERMAN EQUALIZATION OF BURDENS BANK WILL ISSUE A DM 250 MILLION LOAN (COUPON 7 3/4 PERCENT, ISSUE PRICE 99.25, MATURITY 8 YEARS NON-CALLABLE, YIELD TO MATURITY 7.88 UNCLASSIFIED

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PERCENT). CURRENTLY THE GOVERNMENT OF AUSTRALIA IS OFFERING A DM 100 MILLION LOAN (COUPON 7 1/4 PERCENT, ISSUE PRICE 100, MATURITY 7 YEARS NON-CALLABLE) , AND THE FOLLOWING FOREIGN DM LOANS ARE BEING PREPARED: ADELA (LUXEMBOURG PRIVATE DEVELOPMENT AGENCY FOR LATIN-AMERICA): DM 70 MILLION, COUPON 8 PERCENT, MATURITY 7 YEARS; FRENCH SOCIETE DE DEVELOPPEMENT REGIONAL: DM 65 MILLION; COMMUNAL INSTITUTE, STOCKHOLM: DM 40 MILLION, COUPON PROBABLY 7 3/4 PERCENT, MATURITY 7 YEARS WITH REPAYMENT TO BEGIN AFTER 4 YEARS.

8. ECONOMIC INDICATORS PUBLISHED THIS WEEK: UNDER THE INFLUENCE OF SEASONAL FACTORS, UNEMPLOYMENT IN FEBRUARY DECLINED SLIGHTLY BY 4,300 AND STOOD AT 1.347 MILLION AT MONTH'S END; HOWEVER, THE UNEMPLOYMENT RATE (NON-SEASONALLY ADJUSTED) REMAINED UNCHANGED AT 5.9 PERCENT. THE MODEST DROP IN UNEMPLOYMENT WAS ACCOMPANIED BY A NOTABLE DECLINE OF THE NUMBER OF WORKERS ON REDUCED SCHEDULE, WHICH FELL BY 250,000 TO 493,000, WHEREAS THE NUMBER OF VACANCIES INCREASED BY 18,000 FOR A TOTAL OF 208,000. IN INTERPRETING LABOR MARKET DEVELOPMENTS IN FEBRUARY, THE FEDERAL LABOR AGENCY SUGGESTED THAT THE "TENDENCIES TOWARD STABILIZATION ARE GRADUALLY MAKING HEADWAY". ACCORDING TO PRELIMINARY ESTIMATES, SEASONALLY-ADJUSTED JANUARY INDUSTRIAL PRODUCTION EXCEEDED THE DECEMBER 1975 LEVEL BY 3 PERCENT, DUE LARGELY TO A 5 PERCENT MONTH-TO-MONTH GAIN IN OUTPUT OF CAPITAL GOODS.  
HILLENBRAND

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